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ABSTRACT

This paper is designed to provide the reader with a map of how government funding of post-16 education and training provision in Great Britain operates, with a particular focus on Training and Enterprise Council (TEC) and Further Education Funding Council (FEFC) funding streams. It also outlines some consequences current funding arrangements have for skills delivery. Following an introduction, section 2 considers how work-based training supplied by TECs is funded. This covers the way in which funds are allocated from central government to the government offices for the regions and how funds are then passed on to TECs. The section provides evidence on the varied and less than transparent ways that TECs use to fund training providers. These differences are highlighted with examples taken from existing provider contracts. Section 3 reviews evidence on the impact these funding arrangements have for the nature of skills delivery. Sections 4 and 5 shift the focus onto the funding of further education. Section 4 considers how the FEFC provides financial support to the 435 institutions it funds. The impact of the FEFC funding methodology on skills supply is the subject of section 5. The paper concludes with a summary. (Appendixes include lists of abbreviations and 83 references.) (YLB)

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TOWARDS A NATIONAL SKILLS AGENDA

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Skills Task Force Research Paper 11

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SKILLS TASK FORCE
RESEARCH PAPER 11

FUNDING SYSTEMS AND THEIR IMPACT ON SKILLS

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Skills Task Force Research Group

Foreword

The Secretary of State for Education and Employment established the Skills Task Force to assist him in developing a National Skills Agenda. The Task Force has been asked to provide advice on the nature, extent and pattern of skill needs and shortages (together with associated recruitment difficulties), how these are likely to change in the future and what can be done to ease such problems. The Task Force is due to present its final report in Spring 2000.

The Task Force has taken several initiatives to provide evidence which can inform its deliberations on these issues. This has included commissioning a substantial programme of new research, holding consultation events, inviting presentations to the Task Force and setting up an academic group comprising leading academics and researchers in the field of labour market studies. Members of this group were commissioned to produce papers which review and evaluate the existing literature in a number of skills-related areas. The papers were peer-reviewed by the whole group before being considered by members of the Task Force, and others, at appropriate events.

This paper is one of the series which have been commissioned. The Task Force welcomes the paper as a useful contribution to the evidence which it has been possible to consider and is pleased to publish it as part of its overall commitment to making evidence widely available.

However, it should be noted that the views expressed and any recommendations made within the paper are those of the individual authors only. Publication does not necessarily mean that either the Skills Task Force or DfEE endorse the views expressed.

1. Introduction

1. Employers continue to make the largest financial contribution to learning at work in Britain. According to a recent estimate they invest £10.4 billion a year in training their workforce (DfEE, 1998d: 33). However, one should not forget that government too makes a significant contribution to post-compulsory education and training. In 1997-98 taxpayers money funded 3.5 million students to study at colleges of further education at a cost of £3.1 billion. A further 700,000 enrolments are envisaged in the next few years and funding levels are planned to rise to £3.4 billion in 2000-01 to accommodate this expansion. Government spending on higher education is also significant. In 1997-98 £3.7 billion was spent. The planned cost for 2000-01 is £4.2 billion with the student population expected to rise by 100,000. In addition government uses taxpayers money to fund work-based training. These activities cost £1.4 billion a year according to the latest figures giving a training opportunity to over 500,000 individuals (DfEE, 1999a: Chapters 2.1-2.3). Taken together these sources of funding allow government an important influence on the supply of skills. It is, therefore, important to: (a) consider how the funding mechanisms work; and (b) assess the impact these mechanisms have on the skills produced.

2. The focus of the paper is timely since its motivating questions are also at the heart of the policy-making debate about future funding arrangements for post-compulsory education and training. This debate has been triggered by the simultaneous publication of the Quinquennial Reviews of the Further Education Funding Council for England (FEFC) - the body charged with allocating resources to the 435 providers of further education - and the Higher Education Funding Council for England (HEFCE) - the equivalent body for the 135 universities and colleges of higher education (DfEE, 1999c and 1999d). Both bodies are subject to a comprehensive review of their workings every five years. At the same time, the future role and funding of the 72 English Training and Enterprise Councils and Chambers of Commerce, Training and Enterprise (TECs/CCTEs) through which the government' work-based training programs are delivered has come under scrutiny by the incoming Labour government.[1] A review of their operations was announced in May 1998 and a

[1] The funding of the six Welsh TECs has also been reviewed, but as part of a remit including colleges of further education, local authority funded sixth forms as well as TECs. Its recommendations have been published (Education and Training Action Group, 1999).

consultation document was issued two months later (DfEE, 1998c). By the end of the consultation period 36,000 copies had been issued and over 700 written responses had been received. The review has subsequently been extended to include the funding of all post-16 sub-degree provision. The outcome of the review will be announced in Summer 1999. Herein lies a danger: what is described and reported here may only have limited relevance to funding arrangements in the months ahead. However, it is hoped that lessons can be learnt from the evidence this paper collates.

3. The paper is based mainly on desk research and focuses, in large part, on the funding of sub-degree provision through the FEFC and the TECs. However, given the rapidity of change in this area coupled with the need for up-to-date material our desk research was complemented by a small number of interviews with key stakeholders such as DfEE, the FEFC and the TEC National Council. Interviews were also carried out with 3 TECs, 2 CCTEs and 2 colleges of further education. In addition, letters were sent to all 78 TEC Chief Executives in England and Wales requesting copies of their provider contracts and inviting them to provide information on the impact of funding arrangements for the nature of training delivery in their locality. This elicited 21 responses with 15 enclosing a sample of their provider contracts. Our primary research activities were conducted in March-April 1999.

4. The paper proceeds as follows. Section 2 considers how work-based training supplied by TECs is funded.[2] This covers the way in which funds are allocated from central government to the Government Offices for the Regions (GOs) and how moneys are then passed onto TECs. The section also provides evidence on the less transparent and much more varied ways in which TECs fund training providers. These differences are highlighted with examples taken from existing provider contracts collected in the course of this research. Section 3 reviews evidence on the impact these funding arrangements have for the nature of skills delivery. Sections 4 and 5 shift the focus onto the funding of further education. Section 4 considers how the FEFC provides financial support to the 435 institutions under its remit. The impact of the FEFC funding methodology on skills supply is the subject of Section 5. The paper concludes with a summary.

[2] We use TECs for brevity. The term also includes CCTEs. This protocol is adopted throughout the paper.

2. Funding the Work-Based Route to Learning

5. A network of 82 TECs covering England and Wales was established in 1991.[3] They were set-up as locally-based and employer-led institutions charged with contracting with government to plan and deliver training and to promote and support the development of small business and self-employment within their area (Department of Employment, 1988: para 5.7). Several have since merged with Chambers of Commerce to form CCTEs, two neighbouring TECs in North Wales and two in London have merged, one went bankrupt in 1994, and another closed down in 1997 (Cobbold and Martin, 1997; *Times Higher Educational Supplement*, 21 November 1997). In 1999 there are 72 in England and 6 in Wales. For ease of exposition, we will refer to them all as TECs.

6. Despite their broad public remit, the bulk of TEC funding is for the delivery and promotion of work-based training in their area. Around three-quarters of their income comes from DfEE for this activity, around 5% comes from employers and individuals in cash or kind, about 1.5% from the European Social Fund (ESF) or the European Regional Development Fund (ERDF), 6% from the Department for Trade and Industry (DTI) for Business Links, 2% comes from the Single Regeneration Budget (SRB) and 7.5% is paid by DfEE for administration (House of Commons, 1996: xxxvi). TECs, therefore, have to meet the audit requirements of different funding streams or what one of our TEC respondents referred to as a cocktail of funding systems which often help to support part of the same activity. It should also be borne in mind that TECs play an important role in levering in employer contributions for training. This can take the form of payments to trainees or by meeting other training costs. For example, it is estimated that employers made a net financial contribution to youth training initiatives in 1995-96 of £630 million (MacLeod and Maitland, 1997).

[3] At the same time, 22 Local Enterprise Companies (LECs) covering Scotland were established. Since Leeks have a much wider remit covering environmental, community and local economic development issues in addition to TEC-like responsibilities for the local implementation of national training and enterprise programmes, the discussion will focus on TECs.

Funding Blocks

7. TECs receive government funding in four Blocks (numbered 1 to 4) which are themselves divided into individual budgets (see Table 1). The most significant budget in Block 1 is referred to as Work-Based Training for Young People (WBTfYP).[4] This funds the provision of training opportunities to those young people who do not intend staying on in full-time education beyond the age of 16. It comprises three strands: Modern Apprenticeships (MAs); National Traineeships (NTs); and Other Training (OT). Given their centrality to what follows a brief explanation of each is necessary.

Table 1 TEC Funding Blocks and Associated Budgets

Funding Blocks	Size of Funding Blocks	Budgets	Examples of Activities.
1. Work-Based Training and Experience For Young People	£856m	Work-Based Training for Young People Work Experience	Modern Apprenticeships, National Trainee ships, Other Training.
2. Helping Adults Increase their Effective Participation in the Labour Market	£178m (excludes £147m in WBLfA allowances)	Work-Based Learning for Adults Out of School Childcare Initiative	Occupational Training, Basic Employability Training, Employed Status with Additional Training.
3. Local Competitiveness Budget	£62m (DfEE only)	DfEE Funding DTI Funding	Investors in People, National Training Awards, Business Links (DTI funded).
4. Core Business and Strategic Activities	£117m	Strategic Activities TEC Discretionary Fund	Individual Learning Accounts, Inward Investment Training

Source: DfEE, 1999e: Part 5

8. MAs are aimed primarily at developing technician, supervisory and craft-level skills among the 16-24 year age group. National Training Organisations together with TECs and employers have developed training frameworks which lead to National Vocational Qualifications (NVQs) at Level 3 or above and the attainment of Key Skills. Over 225,000 young people have started on their MA since prototypes were launched in September 1994. MA frameworks are now available for 81 sectors of the economy covering three-quarters of all NVQs available at Level 3. The three largest sectors - business

[4] The other budget in this Block includes the funding of work experience places for pre-16 year olds school pupils and support for the teacher placement scheme.

administration, engineering manufacturing and retailing - have each had over 20,000 starts to date. Almost all those in MAs have employment status and are paid a wage - 94% fell into this category in 1998-99 (Howarth and Stone, 1999; DfEE, 1999a: 86; DfEE, 1999e: Part 5).

9. NTs share many of the same features with MAs, including industry designed frameworks and the inclusion of Key Skills, but provide a work-based route to qualifications at Level 2 instead of Level 3. They are also less able to mimic MAs in terms of the proportions with employed status - figures for 1998-99 suggest that just under half of trainees following non-MA programmes had employed status (DfEE, 1999e: Part 5). As from September 1999 trainees without employment status can expect to receive a minimum training allowance of £40 a week (Chatrik and Convery, 1999). The main client group for NTs is different from that for MAs. This means that a sizeable proportion of young people who would in earlier years have joined the MA programme instead take up an NT place. To reflect this, the government has made 16-18 year olds the priority group for this strand of WBTfYP in 1999-00. Since their introduction in September 1997, over 24,000 people have started an NT and frameworks have been agreed in 46 sectors. Substantial growth is planned for future years with a further 15 sectors expecting to deliver frameworks by the end of 1999-00 (DfEE, 1999a: 87).

10. Although DfEE is actively encouraging employers and young people to sign up to framework-based training of the type outlined above, there will continue to be some non-framework training at NVQ Levels 2/3 or above as well as Level 1 and basic skills programmes. This strand is called Other Training (OT). DfEE also plans to introduce a pre-vocational gateway for hard to help young people - known as the Learning Gateway - in Autumn 1999 (DfEE, 1999a: 87).

11. To complicate the picture further TECs often give these national programmes local brand names. For example, brands such as Choice, Think Ahead, Career Training and Skills+ have been encountered in the course of this research to refer to WBTfYP funded under Block 1. Individual strands, too, are sometimes given local brand names: for example, in some TEC areas OT is known locally as Youth Credits or Career Start, while the MA

programmes is referred to as Career Apprenticeship or Network. For the sake of clarity, the current national nomenclature will be used throughout the remainder of this paper.

12. Block 2 government funding covers programmes designed to help adults increase their effective participation in the labour market including Work-Based Learning for Adults (WBLfA) and the Out of School Childcare Initiative (OSCI). The latter offers parents, guardians and carers of school age children the opportunity to participate more fully in the labour market by tackling the barriers which stem from the inadequate provision of affordable school age childcare. The initiative plans to offer 40,000 places in 1999-00, although much of this is now being channelled through local authorities in accordance with Early Years Development and Childcare Partnerships. The 1999-00 TEC budget mainly accommodates for activities launched in 1998-99 under the auspices of TECs.

13. The WBLfA budget has more direct relevance to the Skills Task Force since it aims to improve the employability of the long-term unemployed. There are three strands to the WBLfA programme: Basic Employability Training (BET), a programme specifically designed to cater for those hard to help trainees who need most support; Occupational Training (OccT) which matches the unemployed with clearly identifiable local labour market needs thereby enhancing the job prospects of those who participate; and Employed Status with Additional Training (ESAT) which enables TECs to offer unemployed adults the opportunity to undertake training not otherwise provided to newly recruited workers. As with the youth programme, local branding of the complete adult programme and its various strands is commonplace. This can lead to confusion to those seeking to understand the workings of the funding system not to mention national employers and individuals who cross TEC borders. For the purposes of this paper we will use national terminology.

14. The Local Competitiveness Budget (LCB) forms Block 3 of government funding and draws together DfEE and DTI funding for TEC and their Business Link partners to offer a coherent and seamless service to local employers. The DfEE element of the LCB promotes effective investment in learning, training and development in organisations of all sizes. This is achieved by

inter alia helping organisations become recognised as Investors in People (IiP), making a local contribution to the success of the National Training Awards competition by promoting the Awards and by organising workshops for prospective entrants, and helping small firms (10-49 workers) meet their skills needs. The DTI's contribution provides financial support for Business Links (BLs), the one-stop-shops for business support services in localities.

15. Block 4 funds the core business of the TEC and its wider strategic activities. This therefore includes what was previously called the Management Fee. This pays for the costs incurred in administering TEC activities. As a minimum, plans for this budget in 1998-99 had to set out activities, milestones and targets covering: progress towards the National Targets for Education and Training (now National Learning Targets); development and implementation of a lifelong learning strategy; development and strengthening of local partnerships; ensuring the relevance of TEC activity to local labour market needs; and implementation of the TEC equal opportunities strategy (for this, see Collins, 1998). A budget of £93.8 million has been set aside to support these activities in 1999-00 (DfEE, 1999a: 96).

16. A second budget known as the TEC Discretionary Fund (TDF) is also contained in Block 4. This was introduced in 1996-97 with the aim of encouraging TECs to lever private sector funds for training and enterprise projects in their area. TECs can bid for funding of any project which falls within the authority of the Secretary of State for Education and Employment. Successful bids can have up to half of their costs paid for by the TDF provided they are matched with at least matching contributions from the private sector. In the three years in which the TDF has operated, over 530 projects of up to three years in duration have been supported (York Consulting, 1997). As part of the £20 million allocated annually to the TDF there is a fund which helps support the training element of inward investment projects.

17. Individual Learning Accounts (ILAs) are also funded from Block 4, although these are not funded by new money from DfEE but from TEC reserves built up over the years (see below). The government is offering one million accounts across the UK over the next three years; round 847,000 of these will

be available in England using around £127 million of TEC resources. ILAs give a financial incentive to individuals to plan and manage their own learning. Provided they agree to contribute a minimum of £25 to vocationally-related learning, they will receive a top-up of £150 from their local TEC. Although they are open to all, DfEE has set minimum targets for those falling into particular groups: those working in areas of skill shortage; people with no or low qualifications (Level 2 and below); employees in firms with fewer than 50 people; and people returning to the labour market. In 1999-00, TECs are planning to support up to 100,000 ILAs (DfEE, 1999e: Part 6F).

18. In addition to the above, TECs receive government funding for training activities outside of the main funding Blocks 1-4. Such activities include payments for the administration of successful bids by individuals for Career Development Loans and by firms for Small Firms Training Loans. In the past, other schemes have also been funded by TECs in a similar way. For example, the Business Start-Up Scheme was routed through TECs until the creation of the Single Regeneration Budget (SRB) in 1995 which together funds from 20 programmes from across 5 government departments. The SRB is administered by the Department for the Environment, Transport and the Regions (DETR) (York Consulting, 1998).

19. The relative size of the funding Blocks and their constituent budgets deserves comment. According to recently issued planning guidance (DfEE, 1999e), £844 million and £165 million (excluding allowances) will be spent on the WBTfYP and WBLfA programmes respectively in 1999-00. These figures dwarf the other budgets in Blocks 1 and 2 - the work experience and teacher placement budget in Block 1, for example, is a small fraction of the budget set aside for WBTfYP. The other funding Blocks are also small by comparison - for instance, Block 4 funding this year will amount to around £117 million (cf. Table 1).

20. The youth and adult budgets are distinctive in other respects. Both include an element of funding from the European Social Fund (ESF) secured by DfEE before being passed onto TECs. In the calendar year 1997 WBTfYP received almost £89 million to support the training of a wide variety of young people, including those with Special Training Needs (STN), those training in non-

traditional occupational areas and those training for skills leading to the economic development of their region.[5] A similar contribution was made to the WBLfA budget for much the same reasons - almost £2 million for areas most in need of help and £80 million for the long-term unemployed (DfEE, 1999a: 139). None of the other TEC budgets are passed on with built-in contributions from the ESF.

21. Another difference is that funds outside of the youth and adult work-based training programmes are, in the main, drawn down by reimbursing costs incurred (DfEE, 1999a). However, TECs can make surpluses on programmes run under the WBTfYP and WBLfA budgets from the margin between what DfEE pays them for delivery of outputs and what they pay their providers. This is one of the features of the TEC system of funding which has occasioned critical comment. It is an issue to which we will return.

22. Given the relative size of different budgets, the contrasting ways in which budgets are drawn upon and the source of controversy surrounding TEC funding the remainder of this section as well as the following one will focus on youth and adult work-based training.

Allocation Funds to TECs

23. Once funding priorities have been agreed at ministerial level, national budgets are allocated to the Government Offices for the Regions (GOs) who, in turn, contract with TECs in the region. There are nine GOs in England, one of which deals with six TECs, while another deals with 14 (see Table 2).[6]

24. The regional allocation of funds is based on a set of national formulae. A number of national planning assumptions are made about the numbers expected on the various programmes, the length of stay, the resource requirements and the proportions gaining employed status. From this a single national unit price for WBTfYP is derived. This is then used to determine regional budgets for the programme. This is based on the

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[5] This included £3 million under Objective 1 for areas in most need of help and £86 million under Objective 3 for the long-term unemployed (DfEE, 1999a: 88).

[6] The Welsh Office took over responsibility for the management and oversight of the Welsh TECs (then seven now six) in April 1993 and for policy relating to their programmes in the following year. As a result, the funding arrangements are different in several respects. Some of these are noted in the paper.

numbers in training the previous year and the planned number of starts expected in the next financial year. The intention is to give regions sufficient funding to enable those in training to complete the programme in a different financial year to that which they started as well as underpin the numbers expected to start. A similar mechanism applies to WBLfA, although increasingly this budget is determined by the number of people in the client group rather than by the regions historic share (DfEE, 1999e: Part 5).

Table 2 Government Offices for the Regions and TEC Areas

Government Office Region	TECs Covered
South East	Hampshire, Heart of England, Kent, Milton Keynes and North Buckinghamshire, Surrey, Sussex, Thames Valley, Wight.
London	AZTEC, FOCUS, London East, North London, North West, SOLOTEC, West London
South West	Dorset, Gloucestershire, Prosper, Somerset, Wesiec, Wiltshire and Swindon
West Midlands	Birmingham, Coventry & Warwickshire, Dudley, Hereford & Worcestershire, Sandwell, Shropshire, Staffordshire, Walsall, Wolverhampton.
East Midlands	Greater Nottingham, Leicestershire, Lincolnshire, Northamptonshire, North Derbyshire, North Nottinghamshire, Southern Derbyshire
Eastern	Bedfordshire, CAMBSTEC, Essex, Greater Peterborough, Hertfordshire, Norfolk and Waveney, Suffolk
Yorkshire and Humber	Barnsley and Doncaster, Bradford and District, Calderdale and Kirklees, the Humber, Leeds, North Yorkshire, Rotherham, Sheffield, Wakefield
North West	Bolton and Bury, CEWTEC, Cumbria, ELTEC, LAWTEC, Manchester, Merseyside, METROTEC, North & Mid Cheshire, Oldham, Rochdale, South & East Cheshire, St Helens, Stockport and High Peak
North East	County Durham, Northumberland, Sunderland City, Tees Valley, Tyneside

25. Before the beginning of the operational year, each TEC agrees with its GO a Business Plan. This is written in the light of strategic guidance given from the government from time to time (ED, 1994b; new guidance pending) and the annual planning prospectus issued to TECs in the months before (e.g., DfEE, 1999e). Business Plans will, therefore, differ from year to year. For example, the guidelines issued in preparation for the 1999-00 planning round asked TECs to provide much more information on their approach to developing high quality training for those with STNs than had been required in previous years.

26. The Business Plans cover the entire range of TEC activities. For youth and adult training numerical targets for programme performance designed to meet local needs are set. These are sometimes referred to as volume targets. They include the number of starts, periodic counts of those in-training and predicted achievements. Each of these is paid for by GO at an agreed unit price.

27. The simplest payment is that attached to on-programme counts. On the WBTfYP programmes this takes the form of a monetary payment from GOs to TECs according to the numbers on-training at the end of each calendar month, hence the term on-programme payments (OPPs).[7] The WBLfA programmes operate a little differently in that TECs are allocated a number of allowance weeks within which to deliver the programmes since those on WBLfA receive their benefits plus a training allowance from another arm of government.[8] In addition, adults on average stay in training for shorter periods than young people, hence provider cash flow is less affected by the absence of OPPs.[9]

28. Start payments seem on the face of it clear-cut, the same payment is made for each start registered. However, the unit price is itself derived by giving different weights to different starts. So, for example, trainee starters aged 19 and over on WBTfYP programmes are given a zero weight, while mainstream starters (16-18) are weighted one and those endorsed as having STNs carry a weight of two. This means that higher unit start payments are built into the funding regimes of TECs which cater for STNs. Similarly, TECs can reap higher unit starts payments for their WBLfA programmes if they plan to cater for more of the hard to help group or the disabled (DfEE, 1998b: 26, 54).

29. Differential payments are more immediately visible when it comes to output-related funding (ORF). Here, points are awarded to the outcomes of training and for each point achieved a payment is made from GO to TECs. More points are awarded for certain outcomes than others, and some outcomes are

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[7] The Welsh TECs are paid according to Progress Reviews. These are carried out every 13 weeks and consist of a formal interview between trainee and provider in which progress is discussed (Welsh Office, 1999: B19).

[8] In 1998-99 the average cost of an allowance week was £73.14.

[9] For example, in 1999-00 those on the Occupational Training stand of the WBLfA programme are expected to stay for 14 weeks on average , whereas Modern Apprentices are expected to remain in training for an average of 98 weeks (DfEE, 1999e: Part 5).

recognised for some trainees but not others. Direct achievement of an NVQ Level 3 on the MA programme, for example, is worth six points whereas a direct NVQ Level 2 is worth three (see Table 3). However, only those assessed as having no realistic prospect of achieving the standard of Level 2 (i.e., Category B trainees) trigger outcome points once an NVQ at Level 1 is achieved.[10]

30. Similarly, on WBLfA proof that a former trainee has been in employment for 16 hours or more a week for a minimum of 28 consecutive days within 16 weeks of leaving the programme is worth four points, double the number triggered by trainee who achieves an NVQ Level 2. The different starting points of adult trainees is also taken into account. Sub-Level 2 qualifications achieved by those on the Basic Employability Training strand of WBLfA, for example, are regarded as comparable to the achievement of NVQ Level 2 by those who enter the programme with fewer disadvantages (see Table 4). Furthermore, those on the BET strand of the adult programme trigger progression payments. The nature of these milestones is agreed by TECs with GOs. However, the planning assumptions are that these usually amount to four payments per trainee and cover achievements such the acquisition of presentational skills, demonstrating motivation, improvements in attitude and the engagement in job search activities. TECs also receive a further payment when these trainees complete a four week placement with an employer.

31. Although GOs are urged by central government to negotiate unit prices with TECs by taking into account the mix of TEC activities and the mix of activities delivered in the previous year compared with that contracted, this is accompanied by the suggestion that prices between TECs should not vary too greatly. In last year's planning round, corridors of +/-15% for WBTfYP and +/-10% for WBLfA were suggested (DfEE, 1999e: Part 3).

[10] In Wales some of the outcomes from WBTfYP are also weighted according to occupation, so that qualifications at the same level are not worth the same number of points and hence payment. There are three bands (Welsh Office, 1999: B20.12, Section J).

Table 3 Outcome points on the Work Based Training for young people programme

Outcomes	Circumstances	Outcome Points		
		Modern Apprenticeship	National Traineeship	Other Training
Units of NVQs[1]	Endorsed - categories A-C only[2]	--	--	Pro rata to whole NVQ
Wordpower/ Numberpower[3]	Endorsed - category L/N only	--	--	2
NVQ Level 1	Endorsed - category B only	--	--	3
NVQ Level 2	All	3	3	2
NVQ Level 2	Multiple claim - a maximum of 2 & materially different	2	2	2
NVQ Level 3 (after a Level 2)	Claim made for a related Level 2	3	--	3
NVQ Level 3 (direct)	No claim made for related Level 2	6	--	5
Additional NVQ Level 3	Materially different or secondary to training goals	2	--	2
Additional Qualifications	One mandatory additional qualification over and above those specified in MAs	1	--	--
NVQ Level 4 or higher (after a Level 2 or 3)	Claim made for related Level 2 or 3	3	--	3
NVQ Level 4 or higher (direct)	No claim made for related Level 2 or 3	6	--	5
Additional NVQ Level 4 or higher	Materially different or secondary to training goals	2	--	2

Notes:
1. NVQs consist of several Units which can be certified separately, so that part of an NVQ may be acquired.
2. Endorsed refers to a young person for whom a certificate has been issued following the conduct of objective tests and an examination of the available evidence. The following categories apply:

Category A - young people whose disabilities or disadvantages prevent them from entering or receiving effective vocational training and who require a period of preparatory training;
Category B - young people who on the basis of the Assessment of their current training needs have no realistic prospect of achieving an NVQ Level 2;
Category C - young people who have some prospect of achieving an NVQ Level 2 but require significant additional help and support;
Category D - young people who require relevant assistance to overcome problems associated with their disabilities.

In addition, and where appropriate, young people are endorsed as:
Category L - young people who need Foundation Level literacy training;
Category N - young people who need Foundation Level numeracy training.

3. Wordpower and Numberpower are qualifications which certificate basic communication and numeracy skills.
Source: DfEE, 1998c: 34, 39.

Table 4 Outcome points on the Work-Based Learning for Adults programme		
Outcomes	Circumstances	Outcome Points
NVQ Level 1	Basic Employability Trainees	2
Units of NVQ Level 1	Basic Employability Trainees	Pro rata to whole NVQ
Jobs (including self-employment)	All	4
Entry to full-time education and training	All	2
Wordpower/Numberpower	Trainees who need Entry Level Training (including English for Speakers of Other Languages)	2
NVQ Level 2	All	2
NVQ Level 3 and above	All	4
Units of NVQs (Level 2 and above)	All	Pro rata to whole NVQ
Source: DfEE, 1998c: 62		

32. The balance between paying for the training process (starts and on-programme payments) and paying for outputs has been the subject of intense debate ever since the TECs were first set-up (see Felstead, 1998 and Section 3 below). More and more emphasis has been given to payment by results. Initially, ORF accounted for about 10% of TEC budgets, but this proportion has since crept up to around 25% in 1992-93 and reached levels of 25-40% in 1993-94 (Ball, 1993: 10). The shift in emphasis has continued. Today, ORF accounts for 25-35% of TEC's WBTfYP budget and around 55% of the adult training budget (DfEE, 1999e: Part 3). However, there are signs that ORF may begin to shrink in the future. In a recent letter to TEC Chairs, the Secretary of State for Education and Employment announced that he would like to see a lower level of output funding introduced as soon as possible (Blunkett, 1999). At what point ORF should be set in order to reap the advantages of incentivising achievement and enhancing the efficiency of the system without distorting behaviour and damaging the quality of provision is both complex and difficult to determine.

Measuring TEC Performance

33. There are a number of measures of TEC performance. An absolute measure is the TEC licensing process which is an assessment of a TEC across a

range of activities: corporate, strategic and operational. The licensing process began in 1994-95 and is carried out every three years. In order to contract with government each TEC needs to hold a license.

34. TEC performance is more frequently measured against a number of numerical indicators. These include measuring:

- the extent to which budgets are utilised;
- achievements against the targets set;
- achievements against the Minimum Performance Levels set annually;
- comparative TEC performance.

35. Information is now publicly available on all of these measures following the Nolan Committee's recommendation that GOs should produce an annual report on the operation, performance and governance of TECs within its region as a means of developing public accountability. The first of these annual reports have only recently been published and cover the financial year 1997-98 (see various GO reports listed below). However, the manner and extent of GO reporting on these measures is a little inconsistent, making comparison across GOs difficult.

36. Nevertheless, some patterns can be discerned. It is apparent, for example, that TECs are at their most effective in making use of the regional budgets available for young and adult training. This often entails TECs working together with GO to move budgets between TECs in order to maximise the extent to which budgets in Blocks 1 and 2 are utilised. Elsewhere underspends are more likely to be reported. Part of the reason is that budgets outside of training can only be claimed against moneys spent whereas training budgets can be claimed for starts, OPPs and outputs as outlined above whether or not the money claimed is actually passed onto training providers in full (see below). Several TECs in the East Midlands in 1997-98, for example, did not fully utilise their budgets for IiP nor did the region as a whole spend the entire amount set aside for TDF (GOEM, 1999: 9). A similar picture can be painted for TECs in the West Midlands (GOWM, 1999: 11-13).

37. TEC performance can also be measured by setting annual achievements alongside the targets agreed at the beginning of the year. The evidence here suggests that, overall, TECs started 12% more trainees on MAs than they were targeting at the beginning of the financial year 1997-98 (GOL, 1999: 13). However, this figure conceals disparity among TECs. In London, for example, this ranged from 66% of the target number of starts as contained in the Business Plan to 152%.

38. Only by meeting their contracted targets on the number of starts, OPPs, output points and so on can TECs claim their entire youth and adult training budgets for the year. Shortfalls will lead to underclaims. In addition, within these targets Minimum Performance Levels (MPLs) are set for particular aspects of TEC performance (see Table 5). MPLs are monitored by GO on quarterly basis and an assessment is made every six months.[11] Not all TECs are assessed as meeting these minimum levels of performance. In 1997-98, for example, two out of seven TECs in the East Midlands, eight out of fourteen in the North West and all nine in Yorkshire and Humberside failed to achieve the 12 MPLs set for that year (GOEM, 1999: 10; GONW, 1999: Annex 3; GOYH, 1999: 8-9). Sanctions can be applied to them as a result. Restricting the TECs ability to switch funds into or out of the relevant funding Block to support other TEC activities is the most immediate penalty. However, significant failures can result in further financial restrictions. In particular, GO may limit the ability of the TEC to generate surpluses from training activities by ring fencing funds to ensure that they can only be used for specific purposes (1998b: 7).

Table 5 Minimum Performance Levels for Youth and Adult Training

Minimum Performance Level	Explanation and Level
WBTfYP starters or joiners	90% of targeted first time entrants or 90% of targeted MA joiners
WBTfYP outputs	85% of targeted number of output points
WBTfYP equal opportunities	80% of equal opportunities target (normally outcomes)
Basic Employability Starts	90% of the targeted number of BET starts
BET outputs	90% of targeted number of BET output points
WBLfA jobs	85% of number of trainees expected to move into jobs
WBLfA equal opportunities	80% of equal opportunities target (normally outcomes)

Source: DfEE, 1998c: 6-7, 25, 57: DfEE, 1999e: Part 3.

[11] MPLs are not used in Wales (Welsh Office, 1999).

39. A better known measure of TEC performance is the annual Inter-TEC Comparison (ITC) tables that are published in the Autumn. The latest of these (see Management Information and Systems Unit, 1998) focus on six performance indicators:

- NVQs per 100 leavers from WBTfYP;
- Jobs per 100 leavers from WBLfA;
- IiP recognition of companies with 50+ employees as a percentage of the TECs year 2000 target;
- IiP recognition of companies with 200+ employees as a percentage of the TECs year 2000 target;
- Equal opportunities - WBTfYP - a comparison of the achievements of trainees from ethnic minorities or who have a disability with the remainder, in achieving a qualification (expressed as a ratio);
- Equal opportunities - WBLfA - a comparison of the achievements of trainees from ethnic minorities or who have a disability with the remainder, in getting a job (expressed as a ratio);

40. A list of 11 other supporting indicators is issued to TEC Chairs and TEC Chief Executives and to other organisations with a specific interest. These indicators show: qualifications achieved by young people at different NVQ levels, detailed costs per NVQ and satisfaction levels among former trainees; NVQs per 100 leavers and cost per job on the adult programmes; and various detailed equal opportunities indicators for youth and adult training.

Parameters of TEC-Provider Contracts

41. While there are many publicly available and regularly produced documents (such as Planning Guidance and the Finance Guide see DfEE, 1999e and DfEE, 1998a) which spell out the funding mechanism between central government, GOs and TECs, there is comparatively little on how these funds are then passed onto training providers in TEC areas.[12] Information on this part of the process is gleaned from one-off government-sponsored enquiries

[12] Training providers often fall into one of the following groups: employers; colleges; employer associations; local authorities; private sector training providers; voluntary groups; and the National Training Partnership through which national companies receive government funding for training programmes instead of having to negotiate individual local area deals (see Felstead *et al.*, 1994).

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(e.g., Coopers and Lybrand, 1998; DfEE, 1996; ED, 1994a) or non-governmental research carried out by independent researchers (e.g., Felstead, 1994; Meager, 1995). The government's expectation is that unit prices agreed with GOs for training programmes will be used to pay more to providers for expensive training while paying less for those which are cheaper. However, government has no way of telling whether this expectation is being met since, generally speaking, GOs do not request and are not supplied with information on TEC-provider arrangements. The lack of transparency in the arrangements is made more problematic since the funding regime allows TECs to generate surpluses from the difference between the price GOs pay TECs and the actual cost of delivery (DfEE, 1998c). Surpluses which remain unspent at the end of each financial year are retained by TECs as reserves. These funds may be used to support initiatives serving the same broad purpose from which they are made (e.g., to reintegrate disadvantaged and disaffected young people back into learning) or projects which form part of TECs wider remit (e.g., business support and local economic development). Either way, this allows TECs substantial discretion in what they fund and how (see Table 6 for specific examples, also ED, 1993a). It also allows TECs the opportunity to use DfEE funding to cross-subsidise provision within budget blocks as well as between them.

42. The new planning guidelines for 1999-00 require TECs to outline the funding arrangements they use with providers to support disadvantaged groups on both the youth and adult training programmes, so that their strategies for this client group are transparent and widely understood (DfEE, 1999e: Part 6D, 8). These guidelines require TECs to: consider the overall level of funding commensurate with the maintenance of an effective and viable provider structure; ensure that an appropriate proportion of funding is output-related; and take into account the difficulties providers face in gaining employer contributions. Figures drawn from STN funding pilots are quoted as a guide. On the youth programme overall funding is £2,600 on average per trainee year, excluding allowances. This is made up a £200 start payment, 10% ORF and the remainder drawn down as OPPs (DfEE, 1999e: Part 6C, 3). Illustrative figures are also given for adult training. Once agreed the nature of these TEC-provider agreements must be made publicly available.

Table 6 Examples of Projects Funded Mainly from TEC Reserves	
West London	High quality advice and a range of careers guidance and outreach services in adults through its Next Step service. Over 16,000 customers benefited through outlets operating in Acton, Hounslow and Hayes.
North West London	Collaboration with the University of Westminster to fund a research project into the multimedia sector. This attracted companies from across London and is helping to maintain and advance their knowledge. The TEC has also established the Changing Futures programme which helps ethnic minority businesses to access mainstream business support, and at the same time is capacity building amongst ethnic minority providers.
North West London	Involved in the successful Wembley Employment Service District partnership bid for an Employment Zone. The partnership (which involves Lifetime Careers Service and the Boroughs of Brent and Harrow) aims to provide 450 places for unemployed people through a range of provision including advice and guidance training, business start-up and the services of employment agencies to help job search.
North London	Working with its Voluntary Services Council, has been prominent in the field of capacity building. It has also launched initiatives such as the Ethnic Minority business Network which aims to help such businesses establish useful and growing trading networks, and the business partner/student mentoring programme to help students achieve their academic goals with the help of mentors from local businesses.
London East	Involved in a wide range of partnership programmes - from reading projects for young children to the major strategic developments of the Thames Gateway partnership and Stratford City Challenge. It is also, for example, working in partnership through SRB funding to provide an NVQ Level 3 equivalent course for refugee women.
Calderdale & Kirklees, Bradford & District and Leeds	Supporting a project designed to help local businesses improve their performance through the introduction of appropriate technology. It offers a comprehensive package of support centred on the provision of expert advice, cash grants for further business analysis, purchase of equipment and skills training.
North Yorkshire	As part of its Lifetime Learning Strategy support is given to activities ranging from the provision of Training Access Points and a Learning Helpline offering up-to-date information on training and learning opportunities to Employee Development programmes to support and encourage lifetime learning activities.
Bradford and District	Commitment to a range of business support services over three years. Support includes the Freestyle Programme which offers free help and advice for people thinking of starting their own business and the provision of grants for start-up companies with growth potential.
Southern Derbyshire	Contributed to Derby City Education Business Partnership consisting of Southern Derbyshire CCTE, the City Council, business in the Community and the Derbyshire Careers Service. Activities included a co-ordinated approach to work experience across Derby and a mentoring scheme for disaffected pupils.
North Derbyshire	Development of a work experience logbook designed to help students record and review the skills they learn during work experience
Northamptonshire	Working in partnership with employers to raise standards in the County's schools. Around 50% of the County's secondary schools have been involved over a three year period and have achieved a significant improvement in GCSE results. This work has involved a range of innovative approaches to teaching, learning and boys achievements.
Dorset	Launched a pre-vocational foundation training programme specifically designed for young people who leave education or training early. Programme includes outdoor activities, trainee-led projects, drama and music as well as interactive workshops. Aimed at developing skills required for training and employment.
Hampshire	Supporting 6 Education Business Partnerships which subsequently evolved into Action for Skills groups. These have expanded the role of identifying and helping to meet the skills needs for people of all ages in Hampshire.
Heart of England	Supporting a Basic Skills at Work programme which enables individuals, backed by their employers, to improve their literacy, numeracy and IT skills while at work.
Kent	Financial backing provided to Kent's Social Development Programme which provides special work-based projects to help disaffected young people in deprived areas gain work-related skills before entering mainstream training.
Milton Keynes and North Buckinghamshire	Gave financial support to Live in Archive project which incorporated multimedia training for women returners and two projects which extended skills training to severely disadvantaged groups.
Surrey	Used part of its reserves to support a village shops development scheme.
Thames Valley	Working through 9 Local Action Groups, supported a range of projects including a First Impressions workshop for 6th Form Students in Maidenhead and a low-cost Training Brokerage scheme in Bracknell and Wokingham

43. However, TEC-provider arrangements remain, on the whole, opaque. By sketching the parameters of some of the TEC-provider agreements gathered during the course of this research we hope to shed some light on this part of the funding chain. For the purposes of clarity we highlight six ways in which provider contracts vary between TECs.[13] While this does not exhaust the differences it shows how TECs attempt to reflect labour market/individual needs in their funding arrangements and by the same token the complexity this produces.

(1) Payment Components

44. TEC funding from government has three components: starts; OPPs for WBTfYP and interim payments for some strands of WBLfA; and outputs. However, these payment components are not necessarily adhered to in the contracts TECs offer to their network of training providers. Some TECs, for example, do *not* pay providers for starts on the WBTfYP programme despite the fact that the TEC itself receives funds from government for each young person who begins the programme. The rationale for such an approach is that it discourages training providers from enrolling young people on a programme which is inappropriate to their needs and may therefore result in high levels of early leaving. On the other hand, our research has revealed that some TECs pay for achievements which are *not* paid for by government. Several TECs, for example, pay providers on evidence that trainees have completed their MA and NT frameworks but receive nothing from government for doing so. In other respects, the parameters of TEC-provider contracts mimic those of GOs-TECs - OPPs are commonly paid and outputs are graded with higher level NVQs triggering larger payments.

(2) Programme Strands

45. Government funding for youth and adult training is paid according to unit prices. However, within each programme there are several strands which cater for distinct labour market/individual needs. TEC-provider contracts reflect this variation. On the WBTfYP programme, for example, different prices are offered for the MA, NT and OT strands in all the provider contracts we were able to examine. Similarly, the strands under the WBTfA programme attract different prices. As a result, a single unit price at the GO-

[13] This strategy also safeguards the anonymity of those who supplied us with copies of their provider contracts.

TEC level is translated into several different unit prices at the TEC-provider level according to *inter alia* programme strand.

(3) Payment Banding

46. Most, but not all, of the TECs we examined make differential payments *to* providers according to the area in which training takes place. However, no banding arrangements apply to the funds TECs receive *from* GOs. TEC bandings apply to starts, OPPs, outputs or a combination of these components. This means that providers get paid not only according to the number of starts, trainees on-programme or the number and level of qualifications achieved by trainees but also according to where the training is carried out. Our research revealed that TECs used two, three or four bands and referred to them in various ways - as Standard/Premium, High Cost/Medium Cost/Low Cost, A/B/C/D, for example.

47. A common approach is to assign occupational areas to different payment bands. Often the principle on which this is based is the cost of training. Occupations in which training is costly to deliver because of expensive capital equipment, high wastage rates or the importance of trainee supervision are designated as high cost training areas, while those in which inexpensive capital equipment is required, the cost of wastage is low and trainee supervision is minimal are regarded as low cost training areas. Occupations are often allocated to cost bands following secondary research, guidance borrowed from other programmes or TEC-sponsored research.[14] Either way the building block for such an approach is often the Standard Occupational Classification (SOC) system. This classifies occupations according to the level of formal qualifications required for a person to get a particular job, the duration of training and/or work experience normally required for occupational competence (OPCS, 1990: 3; Elias, 1995: 43-45). At the 3-digit level occupations are grouped into 374 units, at the 2-digit level there are 77 minor groups and the 1-digit level there are nine major occupational groups. Many TECs banding protocols are based on allocating 2-digit and sometimes 3-digit SOCs to different payment bands.

[14] It should be noted that estimating training costs in occupational areas is a complex area (see Hogarth *et al.*, 1998).

48. However, payment bands are not always based on the cost of training in particular occupational areas alone. Some of the TEC-provider contracts examined in this research appear to adopt a hybrid approach of allocating SOCs to different bands on the basis of the cost of training and then amending the allocation by reference to local factors such as labour market need. For example, while engineering and construction are routinely in the top payment band, other occupations such as care and beauty therapy appear in different bands according to TEC area. However, it is not always clear from the documentation examined on what basis these banding allocation decisions are made.

49. An alternative approach is to base the banding framework more directly on the output sought rather than its occupational context. For example, one TEC banded its MA and NT delivery according to the level *and* type of NVQ targeted. Over 350 NVQs in almost 50 framework areas were listed and a funding band was allocated to each NVQ on the list. Potentially at least, this cuts across occupations as NVQs at a particular level and in the same framework (and sometimes occupational) area may be allocated to different bands. In this particular case, for instance, several Level 2 NVQs in catering attract different payments even though they are broadly in the same occupational area.

(4) Age of Trainee

50. Most TEC-provider agreements make differential payments according to the age of trainees on the WBTfYP programme. These variations are most often applied to the start payments, but are sometimes applied to OPPs and on occasion outputs as well. The age distinction is often made between the guarantee and non-guarantee groups which equates, by and large, to 16-18 year olds and 19+ year olds.[15] The government's planning prospectus and its funding arrangements (see above) make it clear that 16-18 year olds are the priority group for the WBTfYP programme. The TEC-provider funding arrangements tend to reflect this emphasis.

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[15] The guarantee group refers to those who are not employed, are not in full-time education, have not reached the age of 18 and are actively seeking entry into WBTfYP. The extended guarantee refers to those who, in addition, are 18 but have not been able to access WBTfYP because of disability, ill-health, pregnancy, custodial sentence, remand in custody, language difficulties or as a result of a care order. By default, the non-guarantee group includes all those aged 19+ but also 18 year olds who fall outside of the extended guarantee.

(5) Trainee Background

51. A trainee's background also has a major bearing on payments made by TECs to their provider networks. The aim here is to give providers a financial incentive to offer training to groups of trainees who are more difficult to engage and/or more costly to train. Some of the payments may also be prompted by the equal opportunity targets set by GOs. These payments take the form of enhanced rates/supplementary payments for trainees with particular labour market disadvantages. Commonly these include STNs trainees, ethnic minorities and people with disabilities (PWD). In TEC-provider contracts examined we found examples of supplements paid for ethnic minority trainees or disabled trainees who achieve certain outcomes, supplements for STN trainees on starting a programme, enhanced OPPs for those endorsed as having STNs, and higher rates for ethnic minorities and those with disabilities who successfully complete a work placement as part of one strand of the WBLfA programme.

52. Less commonly we found examples of TECs rewarding providers for other activities intended to counter labour market disadvantage. These include payment supplements for starters resident in a particular postcode, enhanced start and OPP rates for individuals designated as hard to help (over and above payments for endorsed STNs), and double starts payments for female MAs in manufacturing and engineering.

(6) Type of Provider

53. Paying suppliers different prices is yet another complication. Although apparently not widespread, we did find evidence of some TECs varying provider contracts. One TEC, for example, supplied us with two pricing schedules for its WBTfYP programmes - one offered to training providers, the other offered to employers with employer rates being the lower of the two for all categories of payment. Another TEC has recently invited six providers from its youth and adult network of 43 to become Partner Suppliers. This involves agreeing to pilot new ideas and delivery methods, target specific geographical/vocational areas, and give advice on contract profiling, funding mechanisms and training costs. In return, Partner Suppliers receive a 5% premium on the prices offered to other providers in the network.

54. Six ways in which TEC-provider contracts vary have been identified. For the sake of simplicity we have taken each of these dimensions in isolation. Taken together these variations make it difficult to compare one TECs provider contract with another since in so many respects they differ. Against such a complex background, evaluations of the impact of TEC funding on skills delivery have often focused on the effectiveness of the funding mechanism. It is to these that we now turn.

3. Impact of TEC Funding Arrangements on Skills Delivery

55. The issue which has attracted considerable is the emphasis the TEC system places on ORF. Under current government-TEC contracts ORF accounts for 25-35% of the youth training budget and around 55% of the funds allocated to train adults (DfEE, 1999e: Part 3). These proportions are far in excess of the FEFC regime (outlined in Section 4) which gives greater emphasis to course retention with a fraction of funds, around 5%, dependent on student achievement. Internationally, too, the importance attached to ORF in the funding chain is unusual. Several studies have failed to uncover its widespread use in other countries and even where examples have been found - such as in the US - the emphasis placed on ORF appears much weaker at each link in the chain (Felstead, 1998; Green *et al.*, 1993).

56. Yet ORF is a useful means of concentrating the minds of TECs and their training providers on securing effective outcomes from taxpayers money and so plays a valuable role. This is an advantage of the system which is widely understood and accepted. However, a number of studies have raised serious concerns about how ORF has been used and the extent to which it has been relied upon. Many of these concerns have centred on the consequences ORF has for the nature of the training delivered and the client profile of those served. This section of the paper will outline some of the evidence on which these concerns are based.

57. One such study is the Coopers and Lybrand (1995) evaluation of funding arrangements which gave more emphasis to ORF than was usual at the time. The evaluation centred on seven TECs which agreed to pilot a new funding formula for their adult training programme. The funding formula meant that

25% of the adult training budget was paid according to the number of starts achieved and 75% according to the number of successful completions (i.e., getting a job, becoming self-employed, entering full-time education or attaining a recognised qualification). There was an expectation that similar arrangements would govern TEC-provider contracts. This arrangement was almost the complete opposite of the mechanism in place at that time. Then, it was customary for TECs to receive 75% of their adult training budget according to the number of training weeks completed with only 25% held back to reward successful completion (Employment Department, 1993b).

58. The evaluation set out to assess the effect that these new arrangements had on the efficiency of the adult training programme. Two methods were used: an analysis of the statistical data relating to the seven pilot TECs and their comparators (selected on the basis of broad equivalence in terms of their economies, labour markets, size and performance); and a series of interviews with TEC officials, four or five training providers and up to two Employment Service offices in each area.

59. While the pilot areas did exhibit improvements in both the number of jobs and qualifications achieved by trainees in excess of those recorded by non-pilot areas, the study put this down to factors, at best, only partially related or, at worst, wholly unrelated to the funding regime. A fifth of the performance improvement was attributed to the funding regime. Set against this, the study found that the funding regime had some negative consequences. Giving more emphasis to ORF tilted the focus of training activity to meeting short-term labour market needs rather than equipping trainees with the skills necessary for their long-term employability. The study found that in the pilot areas increased attention was focused on the highest performing courses leading some to reduce or even close down training provision which did not quickly lead to jobs. In addition, a shift away from high cost and/or long duration courses towards low cost and/or short courses was detected. The evaluation also pointed out that the enhanced ORF regime made it more difficult for new providers to enter the market, especially in occupations commonly regarded as high cost training areas. Signs were already evident of the provider network shrinking, thereby reducing the range and choice of provision as well as the intensity of competition between providers. Finally,

the study revealed that the pilot areas were more selective in their recruitment for example, there was tendency for pilot TECs to recruit trainees from the more job-ready section of those eligible for the programme at the expense of those needing additional help. This was revealed in the declining numbers of adult trainees recruited from Employment Service referrals and the growth in the numbers recruited directly by providers (Coopers and Lybrand, 1995: 34, 37-39, 52).

60. Specific research into the consequences ORF has for the training of those with Special Training Needs (STNs) has also been carried out by a number of researchers and organisations (e.g., Meager, 1995; Rathbone, 1998a; see Rathbone 1998c for a summary). Data for Meager's (1995) study came from two postal surveys. One focused on the entire TEC network and the other focused on a sample of 200 training providers, many of whom specialised in catering for the disadvantaged. Both had a response rate of around 65% yielding information on 53 TECs and 126 training providers. The study was conducted on behalf of a consortium of TECs and training providers with a particular interest in STNs.

61. Several findings with respect to TEC-provider contracts reinforce some of the points made earlier (see Section 3). First, although a flat rate fee is paid to each TEC irrespective of the type of youth trainee or the training occupation, TECs themselves can and do offer differential pricing to their providers. In 1995-96, for example, two-thirds of TECs surveyed paid different on-programme payments to providers according to type of trainee and/or training programme. Indeed, a third of TECs paid higher prices to training providers who took on trainees with STNs than to those catering for the mainstream (Meager, 1995: 48). Nevertheless, differential OPPs appear to be on the decline - they were offered by 73% TECs in 1994-95 compared to 67% a year later. A continuation of this trend is likely to make it increasingly difficult to offer the WBTfYP programme to those with STNs since they are, by definition, a client group who are more difficult to train. The same principle applies to particular occupations - such as computing and engineering - where it is more expensive to deliver training because of the cost of equipment, materials and trainers time.

62. Secondly, TECs and providers were asked about the degree to which ORF is built into TEC-provider contracts, and the extent to which it varies between different types of provision. Here, there was much less variation. Around four out of five TECs offered no variation whatsoever in the payments they made to WBTfYP providers for the outputs delivered. In other words, TECs paid providers the same for an NVQ level 3 *whatever the type of trainee or occupational area*. However, 15% of TECs reported varying payments according to trainee type, with another 6% varying payments according to occupational area (ibid.: 51). These variations took the form of higher payments for *some* outcomes if trainees are designated as having STNs. Also, some TECs did pay more for qualifications in certain high cost occupational areas - such as engineering.

63. Respondents to the survey were asked to identify factors which had an effect - positive, negative or neutral - on the quality of training provision for those with STNs (ibid.: Table 8.1). Top of the list for both providers and TECs was the overall levels of funding - over 80% thought this was having a negative effect on the quality of provision. Both ORF *per se* and the degree of ORF were also high on the list among providers as having a negative impact. Whereas for TECs it was not ORF *per se* that was problematic, but rather the degree of ORF (too high) which they felt - like providers - was having a negative impact on provision.

64. Providers and TECs were united in seeing the balance of outcome targets (i.e., the relative emphasis on jobs not qualifications on the WBLfA programme, see Table 4) as having a negative impact on the quality and appropriateness of STN provision. Job outcomes were seen by providers as being too employer dependent. This poses particular problems for STN providers whose client base is more difficult to place on account of discriminatory labour market practices. As one provider put it:

65. Job outcomes cannot be predicted, and are to a large extent outside the control or influence of the provider and trainee - paying on job outcomes, is like paying a travel agent more if it's sunny on your holiday (ibid.: 103).

66. Other deleterious factors are also worthy of note. It was felt that too much emphasis was being placed on simple quantitative performance measures such as the ITC tables, and that quality was being neglected and creaming encouraged one third of TECs and almost a half of providers expressed this view. The availability/quality of STN providers was also thought to be undermining the quality of STN provision. However, TECs frequently argued that such providers were not good enough, while providers took the view that there were not enough of them. The perception among STN providers was that the voluntary sector was being squeezed disproportionately:

67. Specialist providers in the voluntary sector are being driven out of the training market altogether. These are mainly the providers who, in the past, have worked with disadvantaged groups suffering discrimination in the labour market, and whose training needs are such as to be unattractive to commercial providers. On the other hand it is the more efficient voluntary sector providers who are staying in the market, although efficiency is increasingly seen just in terms of meeting contractual targets (ibid.: 105).

68. The process by which young people get endorsed as having STNs has also been the subject of intense debate and controversy (Rathbone, 1998c for a review). The proportions of programmes comprising STN trainees and people with disabilities varies widely between TECs and has little resemblance to their representation in the local population. This is suggestive of considerable variation in underlying STN provision across TECs and/or significant variation in endorsement procedures. Hence, the common recommendation that the endorsement procedure be reviewed and that a national standard be introduced and applied consistently across all TEC areas (e.g., Rathbone, 1998c).

69. Much of these findings are echoed in a recent study by Rathbone (1998a) of STNs funding provision.[16] This study was based on a postal survey of all Rathbone's training centres which have contracts with TECs in England[17], fieldwork visits to a smaller sample of centres (including six providing OT), and a seminar with centre managers to explore the implications of the funding

[16] Rathbone Community Industry is a national charity and a leading national provider of special needs training (currently contracting with 39 TECs/LECs across Britain and supporting up to 15,000 trainees annually).
[17] A parallel analysis of Scottish arrangements was also carried out (Rathbone, 1998b).

arrangements for provider behaviour and trainee achievement. The research was carried out in 1998 and as a result gives a more up-to-date picture of the issues facing STNs providers than previous studies.

70. Nevertheless, the issues identified are much the same. They include:

- The complexity and diversity of TEC arrangements make it difficult, if not impossible, to compare like with like.
- Variations in funding arrangements means that trainees with difficult needs in different parts of the country are inevitably experiencing a very different service (ibid.: 11). In these circumstances, place of residence and local systems rather than need are becoming the true arbiter of access in a way which works against an agenda of social inclusion.
- There has been a dramatic decrease in overall funding levels in recent years which *must* have an effect on trainee experience (ibid.: 10, original emphasis).
- The endorsement system needs to be reviewed with a view to standardising, simplifying and making the system more flexible without being bureaucratic and imposing barriers to access.

71. A range of studies suggest that TEC funding arrangements may act to the detriment of other groups in society by making it financially difficult to breakdown various kinds of stereotypes and prejudices. Take the example of gender stereotypes and characterisations of men's and women's work. Under the Sex Discrimination Act 1975, it is lawful to provide women-only training for occupations in which women are significantly under-represented. However, the present means of measuring TEC performance makes the launch of such programmes financially unattractive to TECs. By their very nature non-traditional training courses are likely to yield fewer positive outcomes per 100 leavers than sex-stereotyped courses, since sexual stereotyping continues to influence the recruitment process (Curran, 1988; Collinson *et al.*, 1990). Similarly, the cost of single-sex training courses leading to employment in non-traditional occupations is likely to be high, as they are more likely to be classroom- rather than workplace-based. Given

these factors, it is not surprising that in 1992 only a few TECs (17%) had set-up courses for women in non-traditional areas (EOC, 1993: 31). With performance indicators assuming even greater importance it is unlikely that the situation has improved since then, although the introduction of equal opportunity MPLs and the equal opportunity targets in the ITC tables are designed to push equality issues up the TEC agenda (see Felstead, 1995). Similar arguments have also been advanced with respect to ethnic minorities (e.g., Ogbonna, 1998; Boddy, 1995) and people with disabilities (e.g., Johnson, 1992).

72. The TEC system of funding and its reliance on ORF heightens the likelihood that rules may be bent or even broken. With so much at stake in terms of showing that training has produced outputs, there is great pressure on training providers to cut corners and even manufacture outcomes (qualifications or jobs). For example, in some occupational areas - such as business administration - NVQs can be awarded by several different bodies (RSA, Pitons, City and Guilds, BTEC), some of which may be less stringent than others when it comes to certification. Furthermore, as Stanton (1996) has pointed out, ORF places severe strain on the impartiality of the NVQ assessment process which sets out to attest to the ability of an individual to perform to workplace standards. This process relies heavily on the ability and willingness of those in a position to observe an individual's workplace performance and make an impartial assessment of it. Often these assessors are the individual's supervisor and/or trainer. If these assessors are in circumstances where their incomes or the resources of the organisation for which they work are affected by whether or not they judge a candidate to be competent, then their impartiality may be compromised.

73. This suggestion has been corroborated by a survey of 1,057 assessors which found that 38% felt that many candidates pass who shouldn't (Eraut *et al.*, 1996: 65; *Financial Times*, 5 December 1996; *Times Higher Educational Supplement*, 29 November 1996). This feeling differs little between occupations, but it is significantly greater in colleges (43%) than in training agencies (32%) or among employers (25%). Even so, the feeling among employer-based assessors that NVQs are being awarded to sub-standard candidates is worryingly high. More astonishing still is the finding that

assessors who verify judgements made in the workplace are far more likely to hold such an opinion - raising to almost half of Awarding Body verifiers. This suggests that the greater the knowledge and experience of NVQ assessment, the more likely it is that assessors feel that the wrong decisions are being made.

74. There is also the danger that output-related funding may encourage some providers of offer training which they find easiest and cheapest to deliver (House of Commons, 1997: iv). For example, some occupational areas suffer from high staff turnover and hence it is easier to trigger job outcome payments by placing former trainees in these jobs. A training provider made this point in evidence to the House of Commons Employment Committee in its investigations into the work of the TECs (House of Commons, 1996: xlii). She even went so far as to suggest that placing trainees in bad companies with a high turnover of trainees could actually it make it easier for her company to meet its output requirements, although this would not be enhancing the benefits of the future. Furthermore, the quality of the job - as measured by its content, pay and the nature of the employment contract - made no difference whatsoever to her positive outcome payments. Where the emphasis is on getting trainees into jobs of almost any kind (as on the WBLfA programme) job quality is irrelevant, and hence the economic incentives for providers are to seek the quickest, cheapest and easiest routes sufficient to trigger payment.

75. TECs and training providers are subject to similar pressures. TECs get paid the same whether the output achieved is in retail or engineering or whether it is a relatively high paying or low paying job. Not only that, but performance ratings reflect none of these differences. Furthermore, TECs are free to allocate any surpluses they generate from training to activities they wish to promote. There is, therefore, a financial incentive, a performance rating incentive and a surplus generation incentive to achieve outputs in sectors where they are more easier to attain (e.g., clerical, hairdressing). An Employment Department study (1994a) based on eight sample TECs in three regions provides evidence to this effect. For example, in one TEC area the majority of its outputs were generated from a national private sector organisation specialising in clerical/business administration training. At

another two TECs, major contributions to output achievement came from national providers with specialisms in clerical and hairdressing provision. As a result, the training profiles of these TECs consisted of predominantly clerical and hairdressing provision (Employment Department, 1994a: para 19). Skewing provision towards the lowest common denominator can enhance the TECs financial performance, its value for money rating and its operating surplus (Jones, 1995 and 1996). Indeed, the Employment Department report admitted that TECs with a higher proportion of STN trainees and a more expensive occupational mix are, other things being equal, less able to achieve surpluses (Employment Department, 1994a: para 58). It is noticeable, for example, that some of those with the poorest record on equal opportunities (as measured by the equal opportunity performance measures) are also those TECs which have accumulated the largest financial reserves (see Bewick, 1997: 24).

4. Funding the College-Based Route to Learning

76. The Further Education Funding Council (FEFC) for England was established under the 1992 *Further and Higher Education Act*, the first major legislative recasting of FE since 1944í (Ainley and Bailey, 1997: 14). There is a separate funding council for Wales, which also covers higher education, and Scottish colleges are funded directly from the Scottish Office. The 1992 Act gave colleges of further education (FE) corporate status and removed them from local education authority (LEA) control. Under the Act, the FEFC's statutory duties are to:

- secure the provision of sufficient facilities for full-time education suitable to the requirements of 16-18 year olds (taking into account education for that age group provided by LEA maintained schools, grant maintained schools, non-maintained special schools and city technology colleges);
- under Section 3 of the Act, to ensure the provision of adequate facilities for part-time education suitable to the requirements of persons over compulsory school age, and full-time education suitable to the requirements of those aged 19 or over, where such education falls within the scope of Schedule 2 of the Act;

- under Section 4 of the Act, to have regard to the requirements of students with learning difficulties and/or disabilities, between the age of 16 and 25 (FEFC, 1999a).

77. In meeting these statutory requirements, the FEFC does not set out to tell colleges which courses they should offer or which students to teach. The colleges, as corporate bodies, are part of a post-16 education and training market and, as such, it is the colleges who seek funds for their strategic plans. Despite the fundamental change which the 1992 Act imposed on the FE sectors funding arrangements, there is still no significant academic literature critiquing FE funding issues. As Robertson (1997) points out, this contrasts with the considerable body of research-based studies on the community college system in the US.

78. The FEFC is currently responsible for funding FE and non-prescribed higher education in five types of college in England: agriculture and horticulture colleges; art, design and performing arts colleges; general further education and tertiary colleges; sixth form colleges; and specialist designated institutions (catering mainly for adults). The FEFC also funds some further education provided by LEA maintained and other institutions referred to as external institutions. In 1999-00, as a result of the comprehensive spending review, the FEFC will allocate £3.2 billion to the FE sector, an increase of some £255 million on 1998-99.

79. Colleges also receive funds from participation in SRB projects, as partners to European Union projects and other local, regional and national initiatives. In 1996-97, colleges estimated their income from European funds to be £78 million (Kennedy, 1997). In addition, colleges can make money by providing full-cost courses which are tailored to meet the needs of specific client groups, and by providing conference facilities and a restaurant service.

80. In the academic year 1997-98, there were some 4 million students enrolled in 435 FE and sixth form colleges and 228 external institutions. These latter institutions include specialist language colleges and adult education centres which receive some of their funding from the FEFC. In 1998-99, three colleges merged with higher education institutions. From college returns for

this academic year (1998-99), by 1 November 1998, some 2.4 million students had enrolled, an increase of 2% on 1997 figures (FEFC, 1999c). Of these students, the FEFC funds 2 million, whilst the rest are enrolled on provision not funded by the FEFC. The vast majority of FEFC-funded students (73%) are adults aged 19 or over, of whom 11% are studying full-time. This contrasts with students under the age of 19, 78% of whom are studying full-time.

The FEFC as an Organisation

81. The FEFC operates as a Council made up of not less than 12 and no more than 15 members, including the Chief Executive, all of whom are appointed by the Secretary of State for Education and Employment, though the FEFC, as a non-departmental public body, is separate from DfEE. Council members are senior managers in education or have significant experience as employers. The Council has nine Regional Committees which were criticised in the Quinquennial Review for lacking a clear role and real power to influence the FEFC Head Office (see DfEE, 1999c).

82. The FEFC's 1998-2001 Corporate Plan (FEFC, 1999a) lists eight aims as follows:

- to secure throughout England sufficient and adequate facilities for further education to meet the needs of students, including those with learning difficulties and/or disabilities, and the communities in which they live.
- to promote increased and wider participation in further education, in order to contribute to social and economic development.
- to contribute to the development of a highly skilled and employable workforce, particularly as envisaged in national targets, in order to contribute to the creation of a thriving economy.
- to promote ongoing improvements in the quality of further education in order to maximise the achievements of its students.
- to promote the role, contribution and potential of further education and the achievements of its students and institutions at national and regional level in order to fully inform policy development.

- to seek to ensure that the sector has an appropriate share of education resources and deploys them with due regard to value for money in order to help deliver the Council's statutory duties and policy objectives.
- to work in partnership with institutions and others at national, regional and local levels, including employers, other funding bodies and central and local government agencies in order to achieve the Council's statutory duties and policy objectives.
- to support and deploy the Council's staff and other resources, securing value for money at all times, in order to ensure that staff can contribute to the achievement of these aims and provide a high-quality service to further education.

83. The Council's Chief Executive is answerable to parliament and its accounts are monitored by the National Audit Office.

84. As well as funding colleges, the FEFC also inspects them and employs a team of some 70 full-time and 600 part-time inspectors for this purpose. Inspections take place every four years and report on all aspects of a college's activity using a five-point grading system. A college's grade profile determines how many units the FEFC will agree to fund.

The FEFC's Funding Methodology

85. The FEFC inherited, from the LEAs, a system of widely varying funding levels between colleges, a system which it is seeking to rationalise through convergence of the unit price colleges receive to fund the courses they deliver. The FEFC's funding methodology is based on the concept of funding units described by the Council as follows: A funding unit is a standard measure of any element of activity that makes up a student's programme of study o' support (FEFC, 1999d). The key point here is that funding should follow the student. The three key elements of a student's programme are deemed to be: the entry element; the teaching and learning element; and the completion or outcome element. Colleges earn units for these elements plus extra units for: pre-enrolment guidance; waiving fees for younger students and adults on low incomes; and providing additional support to students with learning difficulties and/or disabilities. The majority (80-85%) of a college's

unit allocation goes towards meeting the costs of course delivery and student support, whilst 10% covers pre-enrolment guidance, and 5% covers student achievement. Each unit is worth an amount of money, referred to as the average level of funding (ALF). For 1999-00, the minimum ALF has been raised from £16.20 to £16.60, and is expected to rise to £17.20 for 2000-01. In 1998/99, the ALF ranged from £15.80 to £17.60.

86. Colleges are given an annual funding allocation by the FEFC based on each college's strategic plan. A college sets out a target number of units it will deliver and if the FEFC agrees to fund against the plan, the college will receive an agreed ALF per unit; hence, a college which had planned to achieve 600,000 units and was funded on the minimum ALF of £16.60, would receive a block grant for 1999-00 of £9,960,000. There is stability built in to this process as the FEFC guarantees to give a college a main (or core) funding allocation which is based on 90% of the previous year's allocation. To secure funding above that 90%, the college bids for new additional units. The funding allocations for 1999-00 show that 96% of colleges will receive additional funding compared with 1998-99 and that 16 colleges will receive less money (FEFC, 1999d).

87. In 1997-98, the government withdrew the demand-led element of the FEFC's funding which had rewarded those colleges which had grown faster than planned. The intention had been to allow colleges the freedom to be entrepreneurial by increasing their student numbers over and above the targets set in their annual strategic plans. Some colleges, however, ran into serious problems due to the nature of their expansion and hit the tabloid headlines.

88. As corporate bodies, colleges can put on non-FEFC funded provision but in determining their provision overall, the FEFC advises colleges that they need to consider the needs of their own locality and the Secretary of State's wish to see collaboration between colleges and between colleges and other education and training providers (ibid.). Most colleges earn extra income by operating as contractors and sub-contractors on TEC-supported training programmes (see Section 2). In fact, around one-sixth of TEC training budgets eventually find their way to colleges of further education.

89. In order to monitor college performance, the FEFC requires colleges to make five annual returns detailing enrolment figures, to provide information, taken at three census points in the year, on student retention, and information on student outcomes when they have completed their courses.

The FEFC Tariff and Approved Qualifications

90. The FEFC's Tariff Advisory Committee (TAC) consults the sector and advises the Council annually as to the value which should be assigned to the qualifications which the FEFC approves for funding. The TAC was established in 1993 as a result of the FEFC's first consultative document on funding methodology (FEFC, 1992) which proposed that a committee of practitioners (usually college principals) based in FEFC-funded institutions be formed to define funding categories and the relativities between them. Observers from the DfEE and TECs also attend TAC meetings.

91. In addition to advising Council on the tariff, the TAC also consults the FE sector on its proposals for the individual listing of FEFC approved qualifications. Ensuring the list is kept up-to-date and that it reflects the changing demands on colleges from their students and other clients presents the TAC with a considerable task; for example, in 1998-99, 473 NVQs were listed plus some 240 non-NVQ qualifications. The FEFC normally only funds courses listed under Schedule 2 of the 1992 Act. Schedule 2 courses comprise: vocational qualifications, including NVQs and GNVQs; GCSE and A Levels; higher education courses; courses which prepare students for entry to the previously listed courses; basic literacy in English; English as a second language; basic mathematics; and independent living and communication skills for people with learning difficulties. Key Skills units in communication, application of number, information technology, working with others, and improving own learning and performance are listed in their own right. Non-Schedule 2 courses are classed as being non-vocational and non-academic and include physical and recreational training and leisure pursuits. This has led to much creative activity as colleges seek to re-label their courses to bring them in line with the Schedule 2 requirements (see Unwin, 1999). From January 1998, the Qualifications and Curriculum Authority (QCA) became responsible for assessing applications for entry to the Schedule 2 list but the Secretary of State retains the power to approve.

92. The TAC collects data from the colleges Individual Student Records (ISR) to maintain an overview of the types of courses and qualifications being followed. The ISR data also helps the TAC calculate the median annual guided learning hours (GLHs) for each qualification. For a qualification to be funded it must require a minimum threshold of 9 guided learning hours. Qualifications are then divided into 7 loadbands according to how many GLHs a qualification requires and each load band is assigned a number of basic on-programme units as shown in Table 7.

Table 7 Qualification Load bands

Load bands	Hours	Basic On-Programme Units
0	*9-20*	*2.0*
1	*21-59*	*3.8*
2	*60-119*	*10.0*
3	*120-209*	*18.4*
4	*210-329*	*30.2*
5	*330-449*	*43.6*
6	*450+*	*84.0*

Source: FEFC, 1999b: Annex A: 40-41

93. Qualifications in each load band are also assessed against five cost-weighting factors (CWF) (A-E) which take into account the following: staff costs including teaching and support staff; consumables including equipment maintenance but excluding equipment purchase; space occupancy costs excluding rent but including energy costs and recurrent maintenance costs; capital equipment; and building costs. These factors increase the number of units assigned to each qualification in the same load band; hence, a qualification in load band 2 (60-119 hours) which comes under CWF D would increase from the basic on-programme units of 10 to 20 (see Table 8). A Levels, GNVQs and other similar qualifications, which are delivered through significant numbers of guided learning hours, are valued at the highest number of units. Colleges do have the right to negotiate around the cost-weighting factors allocated to qualifications but cannot query the basic on-programme unit allocation.

Table 8 Load bands and Cost-Weighting Factors							
Load bands	Hours	Basic On-Programme Units	CWF A	CWF B	CWF C	CWF D	CWF E
0	9-20	2.0	2.0	2.4	3.0	4.0	4.4
1	21-59	3.8	3.8	4.6	5.7	7.6	8.4
2	60-119	10.0	10.0	12.0	15.0	20.0	22.0
3	120-209	18.4	18.4	22.1	27.6	36.8	40.5
4	210-329	30.2	30.2	36.2	45.3	60.4	66.4
5	330-449	43.6	43.6	52.3	65.4	87.2	95.9
6	450+	84.0	84.0	100.8	126.0	168.0	184.8

Source: FEFC, 1999b: Annex A: 40-41

94. The emphasis on whole qualifications has long been regarded as a major weakness of the FEFC funding methodology by the FE sector. Colleges argue that the majority of their students want to access learning in much smaller packages, earning credits towards whole qualifications in their own time. The FEFC, Further Education Development Agency (FEDA) and QCA are currently exploring whether it would be possible to move towards a credit-based system in which qualifications are divided into units, each of which could be funded separately.

95. The separation of qualifications into approved (i.e., fundable under Schedule 2) and non-approved has always been controversial. Colleges argue that many so-called leisure courses can be the catalyst for motivating people to return to formalised learning, and that trying to define where leisure stops and vocational begins is an impossible task (see Unwin, 1999). In 1999-00, the FEFC will allocate £10 million (covering an estimated 16,000 students) to fund pilot projects of courses not listed under Schedule 2, some of which may not lead to formal qualifications (FEFC, 1999e).

The Value of Students

96. The FEFC methodology aims to get colleges to maximise both student retention and achievement. In its 1998 evidence to the Select Committee on Education and Employment, the Further Education Development Agency supported the FEFC'S decision to base its funding on the three student-centred elements of entry, on-course progress and achievement. FEDA said

...there is little doubt that this tripartite division has an enormous symbolic significance. It has served to legitimate and thereby support investment by colleges particularly in entry phase activities (FEDA, 1998: 4). However, FEDA and others (see Ainley and Bailey, 1997, Huddleston and Unwin, 1997) have highlighted the problems of a model which is so firmly driven by the principle of the funding following the student.

97. The most precious students to a college are those studying full-time and likely to achieve an outcome at the end of their course. Full-time is defined by the FEFC as being enrolled on a programme of at least 450 guided learning hours per year, or for at least 150 guided learning hours per tri-annual period, or more than 16 guided learning hours per week for shorter courses. All other students are classified as part-time.

98. One type of student which many colleges hoped would be valuable is the franchised student and colleges developed a wide range of franchised programmes to help them achieve both their planned targets and additional units. Franchising is currently defined by the FEFC as being a mode of delivering further education that is part of a continuum ranging from provision made on colleges main sites, through outreach work, to distance learning (FEFC, 1999f). In 1998, the FEFC Inspectorate heavily criticised the sector's franchising arrangements and, as a response, the FEFC has issued much tighter guidelines to colleges. The FEFC is particularly concerned about the potential for double-funding and conflicting approaches to quality assurance and control. It has warned colleges that: There is a particularly high level of risk of ineligible provision involved in franchising as a response to short-term pressures (ibid.: 9). The estimated volume of franchised provision for 1998/99 was 13.3 million units.

Funding Capital Costs

99. Colleges also receive capital funding from the FEFC, divided into three categories: capital equipment; major works; and minor works. Colleges with projects over £1 million are required to arrange public-private partnership (PPP) arrangements, previously known as the Private Finance Initiative (PFI). The value of the FE sectors fixed assets (land, buildings, equipment, computers etc.) has been estimated at £4 billion with depreciation costs

exceeding £200 million in 1997-98. (Gravatt, 1999) In the first three years of the FEFC, £150 million was given to colleges to complete structural work but from 1995 to 1998, the level of FEFC capital funding was reduced to £50 million as PFI was brought in. Since 1995, only three PFI projects have been completed. Gravatt (1999) suggests that progress has been slow for a number of reasons including: FE is a low-cost sector with low-income students without the revenue earning facilities that interest third parties; and colleges may lack ambition with excessive red tape and uncertain finances acting as disincentives. He argues that Further education will continue to modernise, but it will do so in ageing buildings (ibid.: 19).

Government Priorities for FE

100. In December 1998, and following the comprehensive spending review, the government listed its priorities for FE for 1999-00 (see FEFC, 1999d) as follows:

- to raise standards;
- to widen participation;
- to meet the skills challenge.

101. The FEFC, in turn, was expected to ensure that the sector is fairly and efficiently funded and that colleges operate on the basis of collaboration (ibid.). As a consequence of the widening participation agenda, which had been instigated through the 1997 Kennedy report, the FEFC will allocate £80 million to fund an increase in adult students in 1999-00, 60% of which will be for widening participation and 40% for increased participation. A further £60 million will be made available to fund an increase of 4.5% in 16-18 year old full-time students.

101. In recognition of the financial problems suffered by some FE students, the government set up the Further Education Student Support Advisory Group under the chairmanship of Graham Lane, Education Chairman of the Local Government Association. The Lane Committee made a series of recommendations which, together, amount to a set of entitlements for students to offset the cost of travel, childcare, subsistence, and tuition and examination fees. The Committee also called on agencies at local level to work together to ensure the entitlements were delivered.

102. As part of its drive to make the FE sector more efficient, the Secretary of State for Education and Employment has charged the FEFC with promoting rationalisation and college mergers (DfEE, 1999f: 2). To this end, the Further Education Collaboration Fund (FECF) was introduced in April 1998 to replace the Further Education Competitiveness and Development Fund (FECDF). The earlier fund had been established in 1995 to improve co-operation between colleges, TECs and employers with regard to post-16 provision planning at local level. The FECF, which amounted to £25.5 million for 1998-99, was split into two elements: £10 million rationalisation element; and a £15.5 million wider collaboration element. The rationalisation element is to be managed by the FEFC and the collaboration element by Government Offices which have overall responsibility for the fund. Announcing the new fund, the DfEE acknowledged that there were adverse consequences for its national skills agenda arising from the competition between post-16 providers:

103. There is evidence that competition has led to an overall lack of co-operation and coherent planning, and that the resultant duplication of provision has had an adverse effect on the cost-effectiveness of FE and post-16 provision generally. If it is to fulfil its potential, the FE sector must be organised as cost-effectively as practicable; this can only be achieved by a greater degree of collaboration both between colleges and between colleges and other post-16 providers (DfEE, 1999f: 1-2).

104. This section has examined the role of the FEFC and its funding methodology. In the next section, we will explore the impact of this methodology on colleges, students, and staff in the FE sector. In particular, we will discuss the effects of methodology in relation to curricula planning and student recruitment, and to the colleges relationships with other post-16 providers.

5. Impact of FEFC Funding Arrangements on Skills Delivery

105. Any analysis of the impact of the FEFC'S funding methodology on the skills agenda must recognise that, since incorporation in 1993, FE colleges have experienced dramatic changes in their ways of working and in their organisational cultures. The early days of incorporation were characterised by protracted industrial disputes over staff contracts, pay and conditions as colleges. Six years later, the FE sector has been featuring in newspaper

headlines as a series of financial scandals have been revealed, notably at Bilston (Wolverhampton), Stoke-on-Trent, Halton, West Cumbria, Ealing Tertiary College, Matthew Boulton (Birmingham), the Isle of Wight, and Wirral.

106. From their research into the impact of the 1992 *Further and Higher Education Act* on teaching and managerial cultures in FE, Gleeson and Shain (1999) argue that ironing colleges on corporate lines has introduced new forms of managerialism which have estranged relations between governors, principals and professionals working in the sector. They suggest that the financial pressures on colleges caused by the demand that they operate as businesses has led many of them to take desperate measures to reduce their debts and to maintain competitive advantage (ibid.). The same pressures, they argue, have also encouraged a special relationship to emerge between college chief executives and their Chairs of Governors which is framed in a formulaic fashion in which bottom-line funding and managerial priorities take precedence over teaching, learning and professional concerns (ibid.). Paul Mackney, General Secretary of the lecturers union, NATFHE, asserts that teaching staff in colleges have had to become whistle-blowers in order to expose the franchising scams invented by their managements and, thus, circumvent the special relationship referred to above (Mackney quoted in Crequer, 1999: 31)

107. Given the substantial structural and culture changes to FE colleges since incorporation, it is unsurprising that many have found the transition from LEA control to quasi-business status problematic and painful. The key question for this paper is whether the FEFC funding methodology can enable colleges to play their part in meeting the nation's skills agenda. Given the seeming financial fragility of the FE sector, it would appear that the funding system has not yet proved itself to be sufficient to ensure colleges can respond appropriately and with consistency to the needs of their diverse range of clients and their local labour markets, let alone the national skills agenda.

108. The current funding system drives colleges to amass as many units as possible. The most straightforward way to do this is by recruiting full-time students (in groups of at least 18) on to one or two year courses such as A levels and GNVQs in subjects which do not require much in the way of capital

equipment. To do this, however, a college has to compete with local sixth form colleges and school sixth forms for the limited supply of 16-19 year olds. This competition is fierce and is fuelled by the annual publication of performance league tables in which FE colleges usually fare worse than their competitor institutions, particularly for A level results. There are far more important reasons than local competition, however, as to why FE colleges are unlikely to concentrate their efforts on the full-time student market.

109. Historically, many of the colleges that still exist today evolved from Mechanics Institutes and related organisations which were established to provide technical education (via day-release and evening classes) for specific trades and crafts in local and municipal communities. The complex array of curricula provision in today's colleges reflects those origins in that they have responded over the years to: the shifting nature of their local labour markets; the needs of local, regional and sometimes national employers; the introduction of new qualifications; the demands of national initiatives such as the Youth Training Scheme and Modern Apprenticeship; and the demands of the local population. If the nation requires the FE sector to continue being the provider of a broad-based, responsive curriculum to everyone from 16 (increasingly 14) year olds to senior citizens, then the FE funding system itself must be capable of helping colleges meet the challenges which face them.

110. Alternatively, it might be time to question whether it was in the nation's interests to allow FE colleges to develop into such complex institutions. Helena Kennedy began her 1997 report on FE with the statement further education is everything that does not happen in schools or universities and continued defining further education exhaustively would be God's own challenge because it is such a large and fertile section of the education world. (Kennedy, 1997: 1) Currently, then, FE colleges are trying to fulfil four key aims:

- To respond to the government's economic agenda to improve the basic and intermediate skill levels of young people and adults and increase their participation in education and training;
- To fulfil their role as the main provider of sub-degree post-compulsory education and training at local level;
- To continue to provide a wide ranging curriculum which bridges the vocational/non-vocational divide;

- To continue being a second-chance saloon for young people and adults who want to return to learning.

111. These aims are not, necessarily, contradictory but in selecting any one as its main raison d'être will determine how a college then identifies, packages and ultimately delivers its curriculum. There will be consequences for the teaching and support staff as well as for the local community. The context-free nature of the FEFC funding system, especially in terms of the local, regional and national economy, pre-supposes that the four aims listed above can be delivered in parallel. Colleges know, however, that they have to work within their very often different local communities. For example, Chris Jude, the Director of Lifelong Learning at Lewisham College in London, believes that in order to serve the needs of local adult students suffering extreme financial and cultural hardship, Lewisham has had to get round the FEFC system so as to provide space for the extra or hidden curricular aspects of people's lives, for those aspects of identity for which, in this increasingly legislated world, education has no script (Jude, 1997: 201) This echoes Kennedy's concern that the widening participation agenda is at the mercy of creative accountancy:

'Clever ways have been found of interpreting the funding guidance. Elsewhere, less imagination has been devoted to the task. Analysis of the additional support units claimed by colleges shows wide variation in practice. Funding for widening participation should be a matter of right; not dependent on providers imagination (Kennedy, 1997: 60).

112. One way in which colleges have been squaring the skills and widening participation circle is through the expansion of Open College Networks (OCNs). First established in the late 1970s, OCNs are now the fourth largest vocational awarding body in the UK. (Wilson, 1997) This unitised accreditation system allows colleges to gain funding for the short courses in specific skills which employers often require and which are not covered by NVQs. It also provides the accreditation mechanism through which colleges can re-route some non-Schedule 2 provision popular with mature students. As Kennedy asserts, For many new learners, non-Schedule 2 courses provide essential first steps to more formal learning and accreditation (Kennedy, 1997: 33).

113. In order to meet their commitment to the widening participation agenda, colleges can bid for a share of the DfEE's Adult and Community Learning Fund (maximum grants of £50,000). They are also expected to support the government's desire to raise adult participation in education and training by becoming involved in the University for Industry (UfI). Bringing more adults onto accredited courses may, of course, increase skill levels in local and regional economies. But for this to happen, there has to be synergy between, on the one hand, college curricula planning and recruitment strategies, and, on the other hand, local labour market needs.

114. Currently, the FE funding system does not reward or provide incentives to colleges for creating such synergy. If a college can achieve its funding units by training large numbers of nursery nurses or GNVQ leisure and tourism students, then it can do so regardless of whether there is a demand such skills. At the same time, colleges struggle to respond to demands from employers for short courses which may be highly significant for the local economy.

115. Any attempt to design a more appropriate and responsive funding system for the FE sector cannot be divorced from wider discussions about the nature of that sector as we approach the next century. Given the sector's current profile, it could be argued that several different funding systems are required to enable FE colleges to meet their multi-faceted missions. Perhaps the time has come to question whether that profile is worth sustaining. Herein lie a difficult set of questions which strike at the heart of a set of institutions which, more than any other sector of education, have worked very hard for many years to satisfy the often conflicting demands and needs emanating from their local and regional communities.

Conclusion

116. The aim of this paper has been two-fold. First, to provide the reader with a map of how government funding of post-16 education and training provision operates, with a particular focus on TEC and FEFC funding streams. Secondly, to outline some of the consequences current funding arrangements have for skills delivery. This task has necessitated a detailed examination of the issues involved, the conclusion therefore provides a summary of the key findings.

The Map

- The FEFC system is based on the direct funding of 435 colleges, whereas the 78 TECs in England and Wales act as intermediaries between government and the providers of work-based training from which surpluses can be made.
- Colleges act as providers of post-16 education and training, acting as significant providers of TEC-funded training. TECs, on the other hand, do not play the role of provider.
- Both TECs and colleges draw funds from additional sources. These include SRB and ESF. However, TECs training budgets have built-in ESF contributions secured by DfEE and cannot therefore be used as matching funding for bids to the same source.
- The funding arrangements in the TEC system vary between areas and as does the branding of national training programmes/strands. By comparison, the FEFC system is more centralised with the Regional Committees exercising limited powers and courses being referred to according to the national qualification pursued.
- TECs have to provide monthly participation reports on trainees compared to three census points for trainees funded via FEFC.
- Funds are allocated to colleges in a way which aims to take into account differences in the type of training provision. However, the funding TECs receive does not appear to take this in account. While TEC-provider contracts may reflect these differences, this remains unclear and is, in any case, subject to local variation.
- TECs have built up significant reserves. Some TECs have spent a

significant part of this on a range of projects which would not otherwise have been funded.

- The FEFC system places an emphasis on minimising drop-out rates and keeping students on the courses for which they are enrolled. The TEC funding stream, on the other hand, places more of an emphasis on the achievement of outcomes through the ORF mechanism.

The Consequences

- The differences in the funding mechanisms have led to contrasting issues as far as consequences are concerned. Furthermore, there is a differential amount of evidence with evaluations on the funding of FE being less well developed than those focused on TECs. Nevertheless, some findings emerge.
- In the TEC system, much of the discussion and evidence focuses on the impact that ORF has. Its consequences include: hindering the provision of training in high cost occupational areas (e.g., engineering); putting pressure on standards and threatening the quality of provision; forcing some providers to exit the market and hence diminishing local competition among providers; and making it more difficult for high cost trainees to enter programmes (e.g., those with Special Training Needs and people with disabilities).
- In the FEFC system, the need to amass the agreed number of funding units to justify the block grant received at the beginning of the academic year is the key factor driving college activities. The allocation of funding units need have no direct relevance to local labour market needs. Hence, the training of large numbers of nursery nurses or GNVQ leisure and tourism graduates, while local employer demands for short courses go unmet. Such a strategy goes unchecked by the funding mechanism and, if anything, seems to be encouraged.
- The two funding routes considered in this paper have a similar more general consequence of supporting financially provision which does not necessarily meet quality standards or the skills agenda at the local, regional or national level. However, TECs training delivery is more likely to reflect local labour market needs insofar as their provision relies on *work-based training* for young people and adults whereas college provision, by and large, does not.

- At local level, colleges and TECs do not always understand and appreciate each others funding systems, and this can make partnership activity difficult to foster.

117. Overall, the paper has revealed the compelling need of a single post-16 funding body taking in TECs, FEFC and LEA activities in this area. This would provide the framework for a single coherent funding strategy, avoid duplication, provide clarity and build a solid foundation on which to address skills needs. However, the key policy question remains how might the funding system enable and compel the suppliers of post-16 education and training provision to work together to address local, regional and national skills needs without encountering the problems which beset the current system. This is a question to which further thought will need to be put before government funded education and training is fit to meet the skills challenge that may lie ahead.

Epilogue

Final revisions to this paper were conducted in the very week that the White Paper, *Learning to Succeed: A New Framework for Post-16 Learning* (DfEE, 1999b) was published (late June 1999). This marks the start of another major upheaval for the post-16 education and training infrastructure and provision less than a decade after the launch of TECs and the establishment of the FEFC. We hope that lessons can be learnt from the ways in which the structures, mechanisms and consequences described and outlined here have impacted on learners, providers, curricula, qualifications and organisational cultures. The White Paper highlights the importance of funding arrangements: Developing the right funding regime will be an early priority for the new [Learning and Skills] Council. To provide a base for that, we want to learn from the experience of those who have worked with the current systems, with all their strengths and weaknesses (ibid.: 5). In this way we hope that this paper - while now backward looking and historical - can be used in forward planning to inform the debate on the precise details of the new funding framework due to be in place in April 2001.

Abbreviations

ALF	Average Level of Funding
BET	Basic Employability Training
BL	Business Link
CCTE	Chamber of Commerce, Training and Enterprise
CWF	Cost-Weighting Factor
DETR	Department for Environment, Transport and the Regions
DfEE	Department for Education and Employment
DTI	Department for Trade and Industry
ED	Employment Department
ERDF	European Regional Development Fund
ESAT	Employed Status with Additional Training
ESF	European Social Fund
FE	Further Education
FECDF	Further Education and Competitiveness Development Fund
FEDA	Further Education Development Agency
FEDF	Further Education Development Fund
FEFC	Further Education Funding Council for England
GLH	Guided Learning Hour
GNVQ	General Vocational Qualification
GO	Government Office for the Regions
HEFCE	Higher Education Funding Council for England
IiP	Investor in People
ILA	Individual Learning Account
ISR	Individual Student Record
ITC	Inter-TEC Comparison
LEA	Local Education Authority
MA	Modern Apprenticeship
MPL	Minimum Performance Level
NT	National Traineeship
NTA	National Training Award
NTO	National Training Organisation
NVQ	National Vocational Qualification
OccT	Occupational Training
OCN	Open College Network

OPP	On-Programme Payment
ORF	Output-Related Funding
OSCI	Out of School Childcare Initiative
OT	Other Training
PFI	Public Finance Initiative
PPP	Public-Private Partnership
PWD	People with Disabilities
QCA	Qualifications and Curriculum Authority
SOC	Standard Occupational Classification
SRB	Single Regeneration Budget
STN	Special Training Need
TAC	Tariff Advisory Committee
TDF	TEC Discretionary Fund
TEC	Training and Enterprise Council
UfI	University for Industry
WBLfA	Work-Based Learning for Adults
WBTfYP	Work-Based Training for Young People

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